VI

MAIN INFERENCES AND A MODEL FOR THE OPTIMUM RESULTS.

- Part - I: Institutional Modifications.
- Part - II: Operational Aspects.
THE overriding inferences emerging on the basis of what has been discussed in the preceding chapters are as thus. On institutional level, our export credit and guarantee system is taken care of now primarily by commercial banks and EXIM Bank. And, RBI and ECGC supports and encourages their efforts. True that these are only four institutions, for the purpose of granting both short and term export credits and issuing warranted insurance policies and guarantees. Yet, it has been noticed that in an endeavor to promote participation and close co-operation among each one of these institutions, lot of duplication is also being promoted side by side. Obviously, it has simply enhanced the effective cost of such credits, a phenomenon which can hardly be appreciated on any count. Not only this, in quite a number of cases, it has also resulted into undesirable delays. The varied schemes evolved to cater the multi-facet needs of the exporters too have been found deficient from the view point of their efficient and effective operations, much lee way has been brought to the notice of the author in the terms and conditions of these schemes. What is really perturbing is the fact that both the
exporters and the lending institutions are found dissatisfied indeed. And, in so far as meeting the credit needs of exporters is concerned the obtaining situation has been also none too encouraging. Wide credit gaps exists. And, they are likely to widen further in future. It's with this background that we are venturing in this Chapter to recommend a few lines of improvement in the existing export credit and guarantee system of the country. Well, these are expected to remove all the perceived institutional, organizational, operational deficiencies of the system and there by ensure the accomplishment of desired result. As we have also suggested integration in the existing institutional set-up, the whole set of improvements may rightly be phrased as, 'A MODEL FOR OPTIMUM RESULTS'. For the sake of presentation, the whole set of our recommendations are being summarized in two parts. While Part - I deals with the institutional changes need to be brought about and those concerning with the operational aspects are included in Part - II.

PART - I

INSTITUTIONAL MODIFICATIONS

6.2 With a view to provide all kind of required assistance to exporters under one roof it is pervasively felt that the activities of the commercial banks, EXIM Bank, ECGC and RBI's refinance facilities should be entrusted to an institution which may be named as 'Export Finance and Insurance Corporation of India' (EFICI). This institution may be established by merging ECGC with EXIM Bank and re-naming the latter as EFICI. Clearly, it would
also assume the responsibilities discharged by the RBI in the sphere of export financing or on behalf of the Government of India as also those of commercial banks as far as formulation of policies relating to short term export credit is concerned. And, we then perceive that it would effectively act as an apex institution as far as the export credit and guarantee system of the country is concerned.

6.3 By implication it would mean that both short-term as well as long term financing will be done at one place. All the powers concerning the formulation or reformulation of policies/schemes concerning export finance, its cost and various other aspects such as terms and conditions of the varied schemes would be the prerogative of EFICI. The envisaged EFICI shall continue to run all the scheme of insurance but the guarantee facilities would come to be restricted to non-financial guarantees as the financial guarantees in the new set up shall not be needed. Commercial banks would, however, continue to act as disbursing & monitoring agencies for both short and medium/long term export credits. Funds for all kinds of export credit would be made available by EFICI and commercial banks would be expected to disburse these funds strictly in accordance with the guidelines issued from time to time by the proposed EFICI. For the services rendered by commercial banks, they would be entitled to receive commission at the fixed rates. The rates of the commission for different services would be fixed in such a way so as to provide sufficient inducement to them for extending the required export finance facilities gladly. The existing schemes meant for financ-
ing the exporters shall continue to be operated by the EFICI; new schemes could, however, be evolved from time to time in order to meet the emerging needs of this sector; and, the existing ones could be modified so as to make them more attractive on the one hand and assistance accomplishing the stipulated performance standards on the other. Other activities envisaged for the Corporation are likely to cover facilities like providing of information on credit rating, holding of the exporters seminars, launching of publicity campaigns, establishing international relations, financial counseling, research and development, conducting market studies, etc.

6.4 Appropriate number of divisions would be created in the organizational structure of EFICI for undertaking the perceived tasks efficiently and effectively. As of now the main divisions and departments of the EFICI would be on the lines indicated vide Figure : I. Thus the EFICI will be headed by a Full Time Chairman-cum-Managing Director. He will be assisted by an Executive Director and a Company Secretary. It shall also have distinct Legal Department, Internal Audit and Vigilance Department. This apart the EFICI would have seven Divisions, namely, Finance, Insurance, Merchant Banking Services, Planning, International Investment, Co-ordination and Administrative Division. The Finance Division is expected to take care of all kinds of financial requirements of the exporters. It may again have two Department. One for Project Financing and another for Financing the Trade. The Project Finance Department would deal with the financing of export projects like construction projects, turnkey
FIGURE - I: Organisation structure of the proposed Export Finance and Insurance Corporation of India (EFICI)
projects, and those related to technical services. The Trade Fiances Department would deal with the financial requirements of the other exporters. Finance for all categories of periods, purposes and at all the stages would be arranged by both of these Departments in assigned functional areas. The insurance and guarantee schemes would be operated through Insurance Division which may have three departments, namely, the Department of Underwriting, Claims, and Guarantees. The Underwriting Department would provide insurance covers to the exporters while the claims of the exporters would be looked after by the Claims Department. We are consciously recommending a distinct Department for Claims with a view to expedite the settlement of insurance claims. Likewise, the Guarantee Department would take care of the guarantee requirements of the exporters. Since financial guarantees shall not be needed in the proposed set up, this Department primarily issue such guarantees as bid-bond guarantees, advance payment guarantees, etc.

6.5 Services like providing of information on the credit rating of exporters, documentation, counseling, conducting of market studies, and preparation of feasibility reports would be extended through the EFICI’s Merchant Banking Services Division. Need not be emphasized that this division may have as many departments as are needed for performing these services. The functions relating to research and development, planning and budgeting, credit investigation and management services would be assigned to the Planning Division. A separate division namely, the International Investment Division is further proposed in order to adequately
care different kinds of foreign investments. This division is expected to assess the feasibility of diversifying the EFICI's activities so as to cover foreign collaborations, equity participation in foreign countries, etc.

6.6 In the perceived organizational structure of EFICI the key responsibility of running smoothly the entire export finance operation would be assumed by a separate Co-ordination Division. This Division would not only co-ordinate the activities of the various institutions engaged in export financing abroad but also establish rapport with exporters, commercial banks, RBI, foreign buyers, foreign institutions, etc. Further it would have the added responsibility of educating the exporters in respect to its schemes and operations. And, the internal administration of the EFICI would be assumed by Administrative Division which would have three departments: Accounts Department for keeping records of the income and expenditure on the one hand, and assets and liabilities, on the other; Control Department to keep a check on the activities of various departments; and Personnel Department to deal with the problems connected with recruitment, selection, training and development, compensation, promotions, etc. On being come into existence, the exporters would have the paramount advantage of submitting their applications for the needed financial and/or other assistance like insurance cover/guarantees etc. only to one institution and at one place. Obviously it would not only save their precious time but the extended assistance is likely to be much quicker and cheaper in terms of its cost. Further, they would be in a position to avail of the services of
the EFICI's Merchant Banking Division. Moreover, the EFICI would be in a position to give specific directions to the commercial bank (of the exporter's choice) for disbursing the money only at the stipulated terms and conditions. In this way the exporter would be relieved of from the bothersome tasks pertaining to the preparation of different proposals and running to different institutions for obtaining different kinds of needed facilities. Commercial banks as disbursing agents too would feel relaxed as they would only be disbursing the Corporation's money at Corporation's directions. Thus, the resource crunch faced by them from time to time would not adversely affect lending to this priority sector. Over and above these, their profitability would remain intact as they would be receiving commission for their services without incurring risks.

PART-II

OPERATIONAL ASPECTS

COMMUNICATION GAP

6.7 The main problem with the small exporters is that of communication gap. They are found quite unaware in respect to varied export financing schemes. This seems to be on account of the inadequate attention paid by the Exim Bank, ECGC, and commercial banks towards publicizing these facilities. For giving better understanding of their programmes to every segment of the exporters a more systematic campaign of publicity is required. Besides giving advertisement in the trade journals public contact programmes would further be worthwhile. Such programmes may be
organized regularly in co-operation with Small Scale Industry Department of the Government of India which has its network of offices all over the country. In such programmes small scale exporters may be invited and the education of export financing and guarantee programmes should be imparted. A practical knowledge about the procedure of applying for the export loan, performances used for application and other formalities must be given to the exporters under these programmes by the officials of the concerned organizations. These programmes should be organized at such places where exporters can reach without spending much time and money. These programmes would also provide an opportunity to the exporters and the officials of the financial institution to sit together and discuss their problems and evolve certain suggestions. Thus the contact programmes of the export finance and guarantee institutions would solve most of the problems of the small exporters. The problems like lengthy and cumbersome procedures and delay in sanctioning the loans are directly concerned with the knowledge of the schemes. A clear understanding about the procedure etc. of these schemes through contact programmes would substantially reduce these problems.

INADEQUATE AVAILABILITY OF CREDIT

6.8 Insufficient quantity of term credit is perhaps the most significant problem of exporters in general, and large sized exporters in particular. We had discussed this problem with some of the officials of commercial banks and EXIM Bank. As far as the EXIM Bank is concerned it has been revealed to the author that
EXIM Bank provides enough funds to every worthwhile proposal irrespective of any size of assistance asked for. Howbeit, it has its own criteria of evaluating the proposals. Since in quite a good number of cases exporters place their loan requirements in an overstated manner, the Bank is left with no other alternative but to accept their applications only for reasonable sums. Even so, there appears to be an ample scope for redefining of the existing evaluation criteria, preferably in consultation with export houses.

HESITATION ON THE PART OF COMMERCIAL BANKS

6.9 On the problem of commercial banks being hesitant in granting term loans of large amounts we submit that the main business of commercial banks is to extend short term finance. Thus, it will be too much to expect that commercial banks will freely participate in term financing proposals. Whenever they will perceive any risk it's natural that they would hesitate in entering into such proposals. While discussing with the officials of a commercial bank we were disclosed that although ECGC provides guarantees covering 90 to 95 per cent portion of the loan amount and funds are being received from the EXIM Bank, yet they felt that a substantial amount of risks are required to be shouldered by them. They said that if the risk materializes than the commercial bank has to bear financial loss to the extent of 5 to 10 per cent. And, this amount of loss calculates at huge sums in case of large export orders. Not only this, the payment of 90-95
per cent from ECGC is received only after the settlement of the claim. On the establishment of the proposed EFICI this problem would be evaluated by the EFICI itself, and if there would be any loss it shall be born by it alone.

HIGH COST OF RAISING LOANS FROM THE FOREIGN BANKS

6.10 Another problem concerns with the relatively high costs that are required to be born by the exporters in raising loans from the foreign banks operating abroad. In this regard we suggest that EXIM Bank may make some arrangements with foreign Governments for raising foreign currency loans in these countries. These loans may be taken by the EXIM Bank and given to the exporter at concessional rates. This problem would stand resolved if the EXIM Bank start reimbursing them the additional cost they are required to bear on these loans. But then the feasibility of this suggestion is quite doubtful.

RATES OF COMMISSION CHARGED BY COMMERCIAL BANKS

6.11 The problem connected with the commission charged by the commercial banks for opening Bid-Bonds needs its resolution also on an urgent basis. Bond, in fact is a sort of guarantee given to the foreign buyer to the effect that in case the exporter secures the contract he would accept it. But then bank runs no risks in case where the exporters finally fail in securing the tender. If the bank charges commission on the unsuccessful bids well it's a
case of clear injustice to the exporter. Hence, it seems in the fitness of the things that the commission should be made chargeable only on the successful tenders.

OVERALL COST OF CREDIT

6.12 True that the crux of discontentment among most of the exporters has been due to variety of reasons. But one important cause has been the high cost of credit. Since, the cost of credit is an important element in determining the competitive strength of an export order, it should be determined with all care. And this is the reason that interest rates on export credit have been under constant review of the RBI and EXIM Bank and from time to time various changes have also been made in order to adapt the structure to the changed situation. To recall, on the recommendations of the Verghese Committee, the interest rates chargeable on export credit were reduced by 2.5 percentage points both on pre-shipment and post-shipment finances. With this change, interest rates have fallen even before the level of July 1974. It was hoped that this downward revision in interest rates would certainly add strength to the competitive edge of our exports. But in the course of our discussions with the prominent exporters it was brought to the notice of the author that still the rates of interest chargeable on these credits should receive sympathetic consideration. However, we are of the opinion that before initiating any action in this direction it would be necessary to obtain a comparative picture of interest rates of different countries. Appendix V, Exhibit-1, gives an overview of the
rates of interest chargeable on export credits in different countries. It may be seen that the lower side of India's rates is quite comparable with other countries. Only three countries viz., Malaysia (5 per cent), Japan (6 per cent) and Pakistan (6 per cent) charge lower rates than India. On the higher side, India is placed at number three. Maximum rates (14 per cent) are charged by Sri Lanka followed by USA (13.6 per cent), and United Kingdom (12.4 per cent). But as we have already seen in Chapter II, that in our country the highest rate of 12.5 per cent is chargeable only in the case of one scheme namely, The Overseas Investment Finance. Another scheme of specified Medium and Heavy Engineering Goods and Construction Contracts for the period beyond 180 days upto 270 days the rate of interest is 11.5 per cent. On rest of the schemes the rate of interest does not exceed 9.5 per cent. The rate of 9.5 per cent is quite competitive in comparison to the rates charged in other countries. Thus so far as the comparative position of cost of credit is concerned India's current interest rate structure on export credit appears quite competitive. But keeping into consideration the fact that for some products the costs of production are higher in India than its competitors in international markets, a lower rate of interest on export credit is advisable. Here also we feel that the aspect of higher cost of production has already been taken care of, to a great extent, by the Cash Compensatory Scheme. Thus, we recommend that instead of further lowering the rates a Scheme of Discriminatory Rates of Interest can be evolved. Different rate may be fixed for different categories of goods. Categories of goods may be created on the basis of competitiveness of the goods in the
international markets. Goods which face tough competition in the international market may be charged a lower rate of interest and goods which face moderate competition may be charged slightly higher rates, and the goods facing negligible competition may be charged at higher rates of interest. The competitiveness of the goods may be determined on the basis of Market Studies, many of which have already been undertaken by the IIFT and EXIM Bank. These institutions may be entrusted with the job of grouping the exportable goods into various categories. The three possible categories and the proposed rates may be presented in Figure II. These categories of goods and the respective rates have been suggested only to clarify our suggestion. Exact categories and exact rates may be determined only after considering carefully the relevant field studies.

DURATION OF CREDIT

6.13 Another problem connected with the aforesaid one is that of the duration of credit, particularly in respect to the short term financing. Exporters felt that the period of 180 days is not adequate. In this context we feel that the extension in the period up to 360 days on an arbitrary basis would not be in the fitness of the things. Hence, in order to solve this problem we suggest the fixation of different durations for different destinations of exports. Besides, the policy of extension in period in exceptional cases should also continue.
### Chapter Six

#### DISCRIMINATORY RATES OF INTEREST PROPOSED TO BE CHARGED ON EXPORT CREDIT

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category of Goods</th>
<th>Proposed Rates of Interest (In Percentage)</th>
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<tr>
<td></td>
<td></td>
<td>Minimum</td>
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<tr>
<td>1.</td>
<td>Highly Competitive</td>
<td>7.5</td>
</tr>
<tr>
<td>2.</td>
<td>Moderately Competitive</td>
<td>8.5</td>
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<tr>
<td>3.</td>
<td>Less Competitive</td>
<td>10.5</td>
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Chapter Six

PACKING CREDIT ADVANCES

6.14 Exporters also face problems in respect to packing credit advances. Their first problem in this respect relates to the difficulties they face in obtaining such credit under situations when the letter of credit is made restrictive in point of a specific bank with which he may have no account. The possible solution for the purpose could be allowing of exporters to negotiate the document through the bank in whose favor the letter of credit has been drawn and thereafter liquidate their loan account with the lending bank via payment of cash. Alternatively, packing credits may be freely granted by any bank through whom the letter of credit is received on the execution of an undertaking by the exporter to the effect that such credits have not been availed from any other bank. The unduly long time taken by the RBI in sanctioning limits for packing credit advances in case of new exporters as also in case of large sized export orders is still another matter which requires serious consideration. On this score it may be suggested that the RBI should expedite such matters and must take a prompt decision on the exporter’s limits. It is expected that with the establishment of the proposed EFICI this problem would vanish.

6.15 The problem of the exporters of cotton textiles was discussed with the officials of commercial banks. They expressed that some of the exporters manipulate the credit term in their bills of exchange, thus, first of all exporters should have disciplined behavior and their bills of exchange should faithfully reflect the credit terms. They suggested that the difficulty
can be obviated by drawing D/P bill, which would enable the banks to extend the credit terms and also estimate the foreign exchange accruals with greater precision.

DUTY DRAWBACK SCHEME

6.16. For resolving the problem with Duty Drawback Scheme, it could be suggested that the exporters' responsibility should be limited to the extent of obtaining certificate from the custom authorities. As soon as the Bill of Lading is certified by the custom authorities, it should be treated as equivalent to cash by banks and the borrowed funds should be liquidated instantaneously. It should not be difficult too as most of the banks are now in state sector and can easily evolve working arrangements with the concerned Governmental authorities.

EXIM BANK'S LINES OF CREDITS

6.17 For making the EXIM Bank's lines of credit result oriented, we suggest that EXIM Bank should offer sufficient incentives in the form of commission to the foreign financial institutions with a view to inculcate their due interest in this scheme. Secondly, when the lines of credit to foreign Government or foreign institutions are extended, it should be ensured that such institutions should be able to stretch their infra-structural facilities for the promotion of Indian products among potential buyers.
Turning to the ECGC's schemes, the first problem that was noticed by the author relates to its Standard Policies. The precise nature of the problem is that ECGC asks for insuring the entire consignments of exports irrespective of the destination. In this regard it would be pertinent to observe that the above mentioned condition of ECGC was justified in the initial years when its schemes were not that popular and it was in search of business to establish its roots. Now, when the Corporation has already stand well settled and possess abundance of business, there is absolutely no need of any such condition. If the Corporation feels hesitant in completely removing this condition, the problem may be solved by adopting discriminatingly rates. Accordingly, the rates chargeable on the group insurance policies should be fixed at one half to one fourth of the rates applicable to normal insurance policies. A scheme like 'No Claim Bonus Rebate' may also prove to be an inducement to exporters.

HIGH PREMIUM RATES

The problem of high premium rates is associated with the principle of group insurance of the Corporation. Though premium rates are not high but the amount of premium to be paid becomes high because of the insurance of such products in which exporters are not keen. Thus, by solving the first problem, the later would also stand automatically resolved. Moreover, after the establishment of the proposed EFICI the problem will substantially be reduced. The proposed EFICI would result into cost savings for
both the parties, namely, the exporters, and the Corporation. Since there would be no need for financial guarantees the premium paid on them would be saved by the exporters and their cost would be reduced to a significant extent.

DELAY IN SETTLING THE CLAIMS

6.20 The problem of delay in settling the claims can be solved if ECGC could devise a system of prompt payment of the total claim against an undertaking from the exporter's bank to the effect that when final settlement is done in due course, any amount recovered from the foreign buyer would be refunded to it. Corporation is also advised to establish some machinery to certify export compliance with contract terms including quality at pre-shipment stage. The disputes which arise due to lack of understanding of export procedures are likely to be reduced to a meaningful extent if the Corporation as well as some of the leading commercial banks establish Export Counseling Offices for the purpose of rendering necessary advice to the exporters.

COMMERCIAL BANKS

6.21 Like exporters, the problem of lack of understanding is also prevalent in commercial banks. Their officials pointed out that they do not fully understand many of the circulars issued by the RBI and hence difficulties in their implementation. While this problem has been realized by the officials of RBI, the solution lies in issuing explanatory and self illustrative notes by the
RBI. On Interest Subsidy Scheme the reaction of the commercial banks is that the benefit of this scheme should be extended to cover the medium/long term advances too. They observe that the scheme would become more attractive and useful if its scope could be extended to cover commercial bank's medium/long term export credits irrespective of their dependence on EXIM Bank's refinancing facility. Further, commercial banks should be given a commission for their services.

THE QUESTION OF ATTITUDE

6.22 A sizable number of exporters argued that banks should accord liberalized treatment to the exporters in point of extending finance. At present exporters are given bank finance for their domestic as well as overseas operations within the credit limits prescribed by banks. Notwithstanding this sound banking criterion, there is the need to accord a generous treatment to the exporters who in addition to domestic operations and export business are simultaneously required to arrange bid bonds, provide performance guarantees and arrange the packing credit.

6.23 To close, let's mention it categorically that if the institutional, organizational and operational improvements recommended in the preceding paras are accepted and implemented then the entire Export Credit And Guarantee System of the country would stand revamped for shouldering both the existing and perspective responsibilities pertaining to the financing of exports in the country. In the context it may be added that in the wake of balance of payment difficulties Government expects that our
exports must increase at a faster rate. To quote Professor Madhu Dandvate, Union Finance Minister, from his speech delivered on the occasion of presenting the First Budget of the new Government: "Another major problem before the country is the strain on our balance of payments position. In the last few years, large trade and current account deficit have been financed through depletion of foreign exchange reserves and growing recourse to foreign borrowings. To combat the pressures on the balance of payments and to ensure a viable situation over the Eighth Plan period, exports must command the highest priority. The alternative of higher foreign borrowings to finance our essential import requirements runs the risk of mortgaging our hard won economic independence. This is clearly unacceptable. Therefore, the new Import Export Policy 1990-93,......, will accord top priority to exports and will give special encouragement for exports which earn high net foreign exchange. The priority for exports will also be reflected in our industrial policy......." And in our endeavors concerning enhancement of exports, credit and guarantee system is certainly going to dominate the measures contemplated for the purpose. The model advocated for the nation's export credit and guarantee system, we believe, would meet the requirement of the day.